Memorandum

CITY OF DALLAS

DATE November 18, 2016

TO Honorable Mayor and Members of the City Council

SUBJECT Effect of Bond Rating Changes on the Cost of Borrowing

On October 6, 2016, Fitch Ratings (Fitch) downgraded the City of Dallas' $1.7 billion outstanding general obligation bond rating from AA+ (stable) to AA (negative). On October 14, Moody's Investors Service (Moody's) took similar action, downgrading Dallas' general obligation bond debt from Aa2 (stable) to Aa3 (negative). Despite these downgrades, AA and Aa3 are strong bond ratings overall. These ratings reflect the City's vibrant and growing economy, our effective budgeting, and recent growth in our operational reserves. Property values in Dallas are up 31.9 percent over 5 years, our sales tax has grown 23.6 percent in the same time, and Dallas unemployment is lower than both the Texas and national averages, and has been for 21 months.

Although the City's ratings are strong, we have paid, and will likely continue to pay, higher costs than we otherwise would because of the downgrades. For example, in 2015, the City issued $195 million in general obligation bonds after a Moody's downgrade from Aa1 to Aa2. Based on municipal bond market conditions at the time of the sale, the City's financial advisors estimate that the true interest cost of the bond issue could have been as much as 0.05 percent, or 5 basis points, lower than the actual rate received. In terms of total cost over the 20-year life of the bonds, a higher bond rating could have reduced the actual total cost ($289.5 million) of the bond issue by $867,600.

Prospectively, our financial advisors estimate that the change from Aa1 to Aa3 could result in an increased cost of borrowing over the 20-year life of the bonds of between $1 million and $2 million for every $100 million we borrow. In interest rate terms, the difference is estimated to be 0.146 percent, or 14.6 basis points. However, it is important to note that market conditions at the time of sale will have the largest effect on our cost of borrowing, particularly if interest rates start to rise overall. Although the City next plans to consider a bond package in May 2017, bond sales resulting from approved bond packages are scheduled over a period of time to match project completion time frames. Therefore, changing market conditions and further changes to our bond ratings in the next few years may affect our cost of borrowing.

Fitch and Moody's both cite concerns with pension obligations as being the primary driver of the downgrades. While Moody's recently declared the election approving changes in the civilian Employees' Retirement Fund as credit positive, they took the opportunity to once again note serious concerns with the Dallas Police and Fire Pension. Additionally, in its 2015 rating report, Moody's cited the City's ongoing need to finance infrastructure improvements as a factor in its decision to downgrade the City. Moody's was concerned that pension needs might compete with infrastructure for scarce resources, leading to a continued decline in infrastructure condition, requiring more expensive fixes later.

Considering the rating agencies' concerns, it is vitally important that we address the crisis facing the Dallas Police and Fire Pension system now. In addition to our commitment to public safety and to providing a secure retirement for police and fire sworn employees, Dallas taxpayers expect and deserve stable infrastructure, and for the City to be able to borrow for such capital improvements at the best possible rate.

We are committed to working with the Dallas Police and Fire Pension and the State of Texas to find a sustainable solution to this pension crisis. Dallas supports our sworn police and fire employees. We are proud that we have always made, in full, the required contribution to the Dallas Police and Fire Pension. In the last 10 years alone, taxpayers have contributed over $1.1 billion to the Dallas Police and Fire Pension in cash deposits. This year, we estimate taxpayers will contribute an additional $127.5 million. Recently, we have taken additional steps to demonstrate our commitment to a strong and vibrant public safety workforce. We set aside money to increase the size of our police force, negotiated a meet and confer agreement that will increase pay, and included $4.3 million in the budget to increase our pension contributions from 27.5 percent to 28.5 percent of total pay. We look forward to continuing to support public safety employees.

If you have any questions or need further information, please do not hesitate to contact me.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

c: A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

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CITY OF DALLAS

DATE: November 18, 2016

TO: Honorable Mayor and Members of the City Council

SUBJECT: **City License Applications**

There were no Dance Hall and/or Sexual Oriented Business applications received for the week of November 7 - 11, 2016 by the Narcotics Bureau Licensing Squad of the Dallas Police Department.

Please have your staff contact Sergeant Lisette Rivera, #7947 at (214) 670-4811 and/or by email at lisette.rivera@dpd.ci.dallas.tx.us should you need further information.

Eric D. Campbell

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Assistant City Manager

cc: A.C. Gonzalez, City Manager
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Interim Police Chief David Pughes, Dallas Police Department